

Report of the Directors

The directors herein present their report together with the audited financial statements of the Company and of the Group for the year ended 31st July, 2001.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the manufacture and sale of garments. The principal activities of the Company's principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's turnover and contribution to profit/(loss) before tax by activity and geographical location of operations is set out in note 29 to the financial statements.

FINANCIAL RESULTS

The Group's profit for the year ended 31st July, 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 21 to 50.

DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31st July, 2001 (2000: Nil). No interim dividend was declared by the Company for the year.

CORPORATE FINANCIAL INFORMATION

The following is a summary of the published consolidated results and assets and liabilities of the Group for the five financial years from 1997 to 2001:

	Year ended 31st July,				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	<u>679,939</u>	<u>727,522</u>	<u>651,984</u>	<u>905,500</u>	<u>1,045,819</u>
Net profit/(loss) attributable to shareholders	<u>5,877</u>	<u>(35,728)</u>	<u>(196,345)</u>	<u>(141,775)</u>	<u>32,003</u>
	As at 31st July,				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Total assets	<u>602,873</u>	<u>647,842</u>	<u>716,162</u>	<u>970,071</u>	<u>1,231,584</u>
Total liabilities	<u>203,961</u>	<u>212,891</u>	<u>245,483</u>	<u>302,987</u>	<u>371,615</u>
Minority interests	—	—	—	60	60
Shareholders' funds	<u>398,912</u>	<u>434,951</u>	<u>470,679</u>	<u>667,024</u>	<u>859,909</u>
	<u>602,873</u>	<u>647,842</u>	<u>716,162</u>	<u>970,071</u>	<u>1,231,584</u>

Report of the Directors

DIRECTORS

The directors of the Company who were in office during the year and those at the date of this report are as follows:

Executive directors

Lim Por Yen (*Chairman*)
 Lam Kin Ming (*Deputy Chairman*)
 Lam Kin Ngok, Peter
 Lam Kin Ko, Stewart
 Lam Kin Hong, Matthew

Non-executive directors

U Po Chu
 Shiu Kai Wah
 Chiu Wai
 Wan Yee Hwa, Edward*
 Lai Ching Chung, Alfred* (resigned on 20th July, 2001)
 Yeung Sui Sang* (appointed on 29th October, 2001)

* *Independent non-executive directors*

In accordance with Article 94 of the Company's Articles of Association, Mr. Yeung Sui Sang retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with Article 100 of the Company's Articles of Association, Messrs. Lam Kin Ngok, Peter, Chiu Wai and Wan Yee Hwa, Edward retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 4 to the financial statements headed "Related Party Transactions", no director had a beneficial interest, either direct or indirect, in any significant contract to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding company was a party at any time during the year.

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors:

Mr. Lim Por Yen, Chairman, aged 86, is the founder of the Lai Sun Group. He has been a director of the Company since November 1987. He is also the chairman and managing director of Lai Sun Garment (International) Limited (“LSG”), the honorary chairman of Lai Sun Development Company Limited and a director of eSun Holdings Limited (formerly known as Lai Sun Hotels International Limited). LSG is the ultimate holding company of the Company. Mr. Lim first became involved in the property and investment business in the mid-1950’s and has close to 60 years’ experience in the garment business. He is an honorary citizen of the city of Guangzhou, the city of Swatow, the city of Xiamen and the city of Zhong Shan in the People’s Republic of China. Mr. Lim was also one of the Hong Kong Affairs Advisers to the People’s Republic of China and is a founder member of The Better Hong Kong Foundation.

Mr. Lam Kin Ming, Deputy Chairman, aged 64, was appointed a director in December 1993. He is also a deputy chairman of Lai Sun Garment (International) Limited (“LSG”) and has been involved in day-to-day management in the garment business since 1958. He is also a director of Lai Sun Development Company Limited, eSun Holdings Limited (formerly known as Lai Sun Hotels International Limited) and Lai Fung Holdings Limited. LSG is the ultimate holding company of the Company. Mr. Lam is a son of Mr. Lim Por Yen and the elder brother of Mr. Lam Kin Ngok, Peter.

Mr. Lam Kin Ngok, Peter, aged 44, was appointed a director in October 1987. He is a deputy chairman of Lai Sun Garment (International) Limited (“LSG”), the chairman and president of Lai Sun Development Company Limited, an executive director of eSun Holdings Limited (formerly known as Lai Sun Hotels International Limited) and the chairman of Lai Fung Holdings Limited. LSG is the ultimate holding company of the Company. Mr. Lam has extensive experience in property and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming.

Mr. Lam Kin Ko, Stewart, aged 53, was appointed a director in April 1997. Prior to his appointment, he has held the position of Consultant (China Affairs) to the Chairman of the Lai Sun Group since 1994. He has over 10 years’ experience in garment manufacturing and China trade.

Mr. Lam Kin Hong, Matthew, aged 34, was appointed a director in July 1999. He is also an executive director of Lai Sun Garment (International) Limited, the ultimate holding company of the Company. He attained a Bachelor of Science degree from the University of London and underwent his training as a solicitor with an international law firm, Messrs. Richards Butler. He is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Lam has considerable experience in the property development fields and corporate finance fields in Hong Kong and China. Mr. Lam is a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming and Mr. Lam Kin Ngok, Peter.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Non-executive directors:

Madam U Po Chu, aged 76, was appointed a director in September 1989. She is also a non-executive director of Lai Sun Garment (International) Limited (“LSG”), Lai Sun Development Company Limited and eSun Holdings Limited (formerly known as Lai Sun Hotels International Limited). LSG is the ultimate holding company of the Company. Madam U has over 50 years’ experience in the garment manufacturing business and was involved in the printing business in the mid-1960’s. In the early 1970’s, she started to expand the business to fabric bleaching and dyeing and also became involved in property development and investment in the late 1980’s. Madam U is Mr. Lim Por Yen’s wife.

Mr. Shiu Kai Wah, aged 69, was appointed a director in December 1993. He is also a director of Lai Sun Garment (International) Limited (“LSG”), Lai Sun Development Company Limited and eSun Holdings Limited (formerly known as Lai Sun Hotels International Limited). LSG is the ultimate holding company of the Company. Mr. Shiu has over 29 years’ experience in management in the garment business.

Mr. Chiu Wai, aged 70, was appointed a director in December 1993. He is also a director of Lai Sun Garment (International) Limited (“LSG”), Lai Sun Development Company Limited and eSun Holdings Limited (formerly known as Lai Sun Hotels International Limited). LSG is the ultimate holding company of the Company. Mr. Chiu has over 40 years’ experience in production management and has been working for the Lai Sun Group’s garment business since 1955.

Mr. Wan Yee Hwa, Edward, aged 65, was appointed a director in December 1993 and is an independent non-executive director. He has been a Certified Public Accountant in Hong Kong since 1961.

Mr. Yeung Sui Sang, aged 63, was appointed an independent non-executive director on 29th October, 2001. Before joining the Lai Sun Group in March 1988, Mr. Yeung had worked in the civil service as a professional radio journalist for over 20 years. He first joined Lai Sun Garment (International) Limited (“LSG”) as Administration Manager, and was later appointed to the boards of LSG, Lai Sun Hotels International Limited (now known as eSun Holdings Limited) and Asia Television Limited. Mr. Yeung retired from the Lai Sun Group in June 1998.

Senior management:

Madam Lam Shun Yee, Sunny, aged 45, was appointed the Deputy Chief Executive Officer of the Company in October 1999. She has over 14 years’ management experience in the garment and retail business. On joining the Company in 1987, she brought with her over 10 years’ experience in retail banking with a multinational bank in Hong Kong. Her principal accountability on her appointment to this position is the implementation of the operational policy and strategy set down by the Board under the leadership of the Chairman, encompassing the management of Hong Kong and Mainland retail operations, cost control, development of the Mainland market, and repositioning of the “Crocodile” brand.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(continued)

Senior management: (continued)

Miss Chan Lai Ping, Connie, aged 35, is the Financial Controller of the Company. Miss Chan is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and an associate member of the Hong Kong Society of Accountants. She joined the Company in September 1999 and has over 10 years' financial experience.

Miss Lam Wai Shan, Vanessa, aged 30, joined the Company in March 1998. Miss Lam is the vice-president of the Company and is in charge of the Hong Kong Retail department. Miss Lam is a graduate of the Fashion Institute of Design and Merchandising in Los Angeles and holds a Bachelor of Arts degree from Scripps College, California, USA. Prior to joining the Company, Miss Lam worked for two London-based design houses — Alexander McQueen and Julien MacDonald. Miss Lam is the eldest child of Mr. Lam Kin Ming and is the eldest grandchild of Mr. Lim Por Yen.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the directors and the five highest paid employees disclosed pursuant to Section 161 of the Companies Ordinance and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' INTERESTS IN SHARE CAPITAL OR DEBENTURES

As at 31st July, 2001, the interests of the directors in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance")), as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(1) Company

	Number of Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	Nil	Nil	338,982,809	Nil	338,982,809
			(Note)		

Note: Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 338,982,809 shares in the Company. Mr. Lim Por Yen (together with his spouses) held an interest of approximately 34.3% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate 42% of the issued share capital of LSG.

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DIRECTORS' INTERESTS IN SHARE CAPITAL OR DEBENTURES (continued)

(2) Associated Corporations

(a) Lai Sun Garment (International) Limited ("LSG")

	Number of LSG Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	484,991,750	4,451,790	Nil	Nil	489,443,540
Lam Kin Ngok, Peter	110,794,951	Nil	Nil	Nil	110,794,951
U Po Chu	3,669,000	Nil	Nil	Nil	3,669,000
Chiu Wai	199,600	Nil	Nil	Nil	199,600

(b) Lai Sun Development Company Limited ("LSD")

	Number of LSD Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	197,859,550	Nil	1,582,869,192 (Note)	Nil	1,780,728,742
Lam Kin Ngok, Peter	10,099,585	Nil	Nil	Nil	10,099,585
U Po Chu	633,400	Nil	Nil	Nil	633,400
Chiu Wai	195,500	Nil	Nil	Nil	195,500

Note: LSG and its wholly-owned subsidiary beneficially owned 1,582,869,192 LSD Shares. Mr. Lim Por Yen (together with his spouses) held an interest of approximately 34.3% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate 42% of the issued share capital of LSG.

(c) eSun Holdings Limited ("eSun")

	Number of eSun Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	1,656,867	Nil	285,512,791 (Note 1)	Nil	287,169,658
Lam Kin Ngok, Peter	3,426,567	Nil	Nil	10,500,000 (Note 2)	3,426,567
U Po Chu	112,500	Nil	Nil	Nil	112,500

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DIRECTORS' INTERESTS IN SHARE CAPITAL OR DEBENTURES (continued)

(2) Associated Corporations (continued)

(c) eSun Holdings Limited ("eSun") (continued)

Note 1: LSD and its wholly-owned subsidiaries beneficially owned 285,512,791 eSun Shares. LSG together with its wholly-owned subsidiary held an interest of approximately 42.25% in the issued share capital of LSD. Mr. Lim Por Yen (together with his spouses) held an interest of approximately 34.3% in the issued capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate 42% of the issued share capital of LSG.

Note 2: An employee share option scheme (the "Scheme") was adopted by eSun in November 1996. An option was granted by eSun under the Scheme to Mr. Lam Kin Ngok, Peter on 12th February, 2000 to subscribe for 20,000,000 shares in eSun at HK\$0.61 per share exercisable during the period from 13th August, 2000 to 12th August, 2002. A second option was granted by eSun to Mr. Lam under the Scheme on 4th March, 2000 to subscribe for 15,000,000 shares in eSun at HK\$1.40 per share exercisable during the period from 5th September, 2000 to 4th September, 2002.

On the consolidation of every five issued and unissued shares into one ordinary share of HK\$0.50 each in eSun with effect from 29th December, 2000, the respective number of Mr. Lam's first and second options was adjusted to 4,000,000 shares and 3,000,000 shares and the exercise price for the first and second options was adjusted to HK\$3.05 and HK\$7.00 respectively.

Pursuant to the rights issue of eSun on 29th December, 2000 on the basis of one rights share for every two existing consolidated ordinary shares held, the respective number of Mr. Lam's first and second options was further adjusted to 6,000,000 shares and 4,500,000 shares respectively, and the exercise price for the first and second options was further adjusted to HK\$2.655 and HK\$6.094 respectively.

For the year ended 31st July, 2001, Mr. Lam had not exercised any share options.

(d) Lai Fung Holdings Limited ("LFH")

	Number of LFH Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	Nil	Nil	1,413,700,289	Nil	1,413,700,289
			(Note)		

Note: LSG and its wholly-owned subsidiary held 633,741,377 shares in LFH. Further, LSG and its wholly-owned subsidiary held an interest of approximately 42.25% in the issued ordinary share capital of LSD which held 779,958,912 shares in LFH. Mr. Lim Por Yen was deemed to be interested in 1,413,700,289 ordinary shares in LFH by virtue of his interest (including that of his spouses) of approximately 34.3% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held an interest of approximately 42% in aggregate in the issued share capital of LSG.

Report of the Directors

DIRECTORS' INTERESTS IN SHARE CAPITAL OR DEBENTURES (continued)

(2) Associated Corporations (continued)

In addition to the above, certain directors held non-beneficial interests in the share capital of some of the subsidiaries of the Company and associated corporations as nominee shareholders, mainly for the purpose of complying with the statutory requirements for a minimum number of shareholders for those subsidiaries.

Save as disclosed above, as at 31st July, 2001, none of the directors or chief executives of the Company or their respective associates had any interest in the equity or debt securities of the Company or of any of its associated corporations which was required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance or the Model Code (including interests which they were deemed or taken to have under Section 31 or Part 1 of the Schedule to the SDI Ordinance) or which was required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein.

Save as disclosed above, at no time during the year was the Company, or its holding company or any of its subsidiaries or its fellow subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of equity or debt securities of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st July, 2001, the parties listed below were interested in 10% or more of the total issued share capital of the Company as recorded in the register required to be kept under Section 16 (1) of the SDI Ordinance:

	Number of shares held
Joy Mind Limited	336,316,809
Lai Sun Garment (International) Limited ("LSG")	338,982,809
Lim Por Yen	338,982,809

Note: Joy Mind Limited was a wholly-owned subsidiary of LSG. Its interest in the Company constituted part of the interest held by LSG in the Company.

Lim Por Yen was deemed to be interested in LSG's interest since he (together with his spouses) held an interest of approximately 34.3% in the issued share capital of LSG.

Save for the interests disclosed above, the directors are not aware of any other person being interested in 10% or more of the issued share capital of the Company as at 31st July, 2001.

ACCOUNTING POLICIES

The principal accounting policies of the Group are set out in note 3 to the financial statements.

Report of the Directors

FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in note 13 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 14 to the financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries at the balance sheet date are set out in note 15 to the financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group and the Company at the balance sheet date are set out in note 18 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers accounted for less than 30% of the Group's total turnover for the year.

The purchases attributable to the five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

As far as the directors are aware, neither the directors, their associates nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital had any beneficial interest in the group's five largest customers and suppliers.

DISTRIBUTABLE RESERVES

As at 31st July, 2001, the Company did not have any reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$3,490,000.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the financial year ended 31st July, 2001.

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CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report. The non-executive directors were not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

The Company has established an audit committee, which comprises two independent non-executive directors as at the date hereof.

AUDITORS

Ernst & Young will retire at the forthcoming annual general meeting and a resolution for their reappointment as auditors of the Company will be proposed.

On behalf of the Board

Lim Por Yen

Chairman

Hong Kong
9th November, 2001